

# Puget Sound BUSINESS JOURNAL

November 6-12, 2009



BUSINESS JOURNAL Photo/ Dan Schlatter

**GRASS SPLENDOR:** Brandon Weber, leasing agent for CBRE, on the 17th floor garden of 1301 Second Ave. The owner is hewing to market rents, for now, rather than undercutting prices.

## Holding up *Steady rent at former WaMu tower supports office market*

by JEANNE LANG JONES  
STAFF WRITER

More than a year after Washington Mutual's collapse, its soaring glass headquarters building is factoring heavily into the recession-strapped Seattle office market.

The 42-story tower sits largely vacant — posing a challenge to downtown landlords and leasing brokers.

Initially, some feared the new owner would slash rents to undercut competitors.

So far, though, rents sought by owner Northwestern Mutual Life Insurance Co. are in line with the market — between \$15 and \$31 a square foot net of operating expenses, according to an OfficeSpace.com listing for the property.

Northwestern Mutual has an edge most property owners don't. It bought the 890,000-square-foot tower from JPMorgan Chase in mid-September for just \$115 million — roughly a third of its appraised value just a year ago.

"They might have got it for a fire-sale price but they are not giving it away," said developer Martin Selig.

Selig is trying to fill two buildings: the new, 275,000-square-foot Fifth & Yesler building and the 320,000-square-foot 635 Elliott project, which now includes a one-acre plaza and sculpture garden.

"They are right where the market is," he said of Northwestern Mutual. "They are not in a giveaway program."

Still, that low purchase price provides leeway in rent negotiations compared to competing landlords who bought their buildings at the height of the market and developers with new Class A office buildings who need to cover their costs.

Just how aggressive the new owner will be in lowering rents to lure tenants will set the market trend, experts say.

Northwestern Mutual faces plenty of competition in filling the tower, located at 1301 Second Ave. Vacancies for premium Class A office space in downtown Seattle now top 18 percent, according to a third-quarter report from real estate services firm CB Richard Ellis.

The recession and credit crunch have made local companies cautious about leasing space. Since mid 2008, Class A office rents have declined by more than 21 percent, or \$8 a square foot, according to CB Richard Ellis. With the economy starting to improve, more tenants in recent weeks are out looking at space. Whether rates are low enough to get them to commit remains to be seen, brokers say.

In addition, the landlords that are making deals are typically agreeing to prices that are 10 percent to 20 percent less than their asking rates and are having to throw in concessions such as several months of free rent or picking up the tab for tenant improvements, said Oscar Oliveira, managing director at the Broderick Group in Bellevue.

"The truth will be told when they actually do deals and we see where their deals land," Oliveira said.

So far, much of the activity has been in renewals, said Dan Flinn, a principal at the tenant representative firm Flinn Ferguson Corporate Real Estate in Seattle. New office buildings have signed few if any leases in recent months. It could take some deal-making to persuade companies, still worried about the economy, to relocate. And, if deal-making is needed, Northwestern is likely to be more limber than its competitors at dropping the bar.

"They have the financial ability certainly to beat whomever they decide they want to compete with," said Flinn. "They certainly have the ability to be leased first. It is 100 percent up to them and

## Seattle vacancy reaches 18 percent

their parameters for doing deals and how aggressive they want to be.”

But so far, brokers for Northwestern Mutual say they’re not cutting rents.

“We are competing with other premium, Class A buildings in town — and that is not the direction we are going right now,” said Jesse Ottele, a vice president at CB Richard Ellis, broker for Northwestern Mutual.

Still, Flinn noted, “It’s a tremendous amount of space in a market that already has a tremendous amount of space.”

Currently, about 591,000 square feet are available in the tower. JP Morgan Chase will continue to occupy space and Northwestern Mutual subsidiary Russell Investments will move in by the end of 2010 as the anchor tenant. Known as WaMu Center just over a year ago, the office tower has been renamed yet again as the Russell Investments Center.

CB Richard Ellis broker Brandon Weber, who along with Ottele and Owen Rice is marketing the tower, said he’s targeting companies in the financial services sector, law firms and creative companies such as advertising and marketing firms.

The pitch: a location in Seattle’s central business district next door to the Seattle Art Museum, across the street from Benaroya Hall and a short walk to Pike Place Market; heady views of Elliott Bay and the Olympic Mountains; and a spectacular 25,000-square-foot deck on the 17th floor with a panoramic view of the waterfront.

Weber said he conducted 30 tours by prospective tenants in the first three weeks the property was on the market. .

To be sure, there are challenges in converting a building designed for a single tenant into a building housing multiple smaller companies. Some tenants may prefer a larger number of private offices and conference rooms than what’s included in Washington Mutual’s more open floor plans. Adding those as tenant improvements will be expensive for Northwestern Mutual, Oliveira said.

“It was designed as an owner/user building and there are some specific design elements that were very suited for the WaMu program that may not be completely consistent with the average Seattle Class A office tenant,” said Mike Nelson, senior investment director and partner at Seattle development firm Schnitzer West. “Our projects were designed from the get-go to be efficient and appeal to a broader range

of tenants in the marketplaces.”

Schnitzer has two new buildings competing for tenants: the 658,744-square-foot 1918 8th building and 238,200-square-foot 818 Stewart building, where roughly 96,000 square feet of space is available.

A-P Hurd, vice president of development and marketing at Touchstone Corp. in Seattle, acknowledges the difficulty of competing against the Russell building on price. Touchstone is trying to lease its competing 520,000-square-foot West 8th office building.

“Everyone knows they can cut some deals that the newer buildings with a higher basis would be challenged to do,” Hurd said. “But there is always competition on what you can do on a pure price basis that exists with any second generation space.”

Hurd points out West 8th has a 10,000-square-foot deck for its tenants, a child care facility and chef William Belickis’ newest venture, Mistral Kitchen.

Northwestern Mutual faces more competition than during the prior downturn. Back then Chicago-based Equity Office Properties Trust owned the lion’s share of the Seattle office market. EOP’s empire was carved up by three institutional owners. “These new landlords have been “fairly aggressive,” Oliveira said.